

HUMAN SERVICES

4130 Health and Human Services Agency Data Center

The Health and Human Services Agency Data Center (HHSDC) seeks to increase efficiency and effectiveness in the use of electronic data processing resources by providing services to departments and agencies within the Health and Human Services Agency in a consolidated manner. HHSDC is supported entirely by reimbursements from departments that contract with the data center for services.

The HHSDC has two general components: operations and systems management. The operations component provides computer services, telecommunications support, information systems, and training support to departments in the Health and Human Services Agency. The systems management component manages five major projects for the Department of Social Services. These include: (1) the Statewide Automated Welfare System (SAWS), automating eligibility and administrative functions for CalWORKS, Food Stamps, Medi-Cal, Foster Care, Refugee and County Medical Services programs; (2) the Child Welfare Services/Case Management System (CWS/CMS) for the Child Welfare Services, Foster Care and Adoptions programs; (3) the Statewide Fingerprint Imaging System (SFIS) to identify duplicate applicants for CalWORKS and Food Stamps benefits; (4) the Electronic Benefit Transfer (EBT) program to deliver assistance benefits to eligible recipients through electronic funds transfer; and (5) the Case Management, Information and Payrolling System (CMIPS) for the In-Home Supportive Services program. The HHSDC budget decreases by \$2.3 million in spending authority, or one percent, from the revised current year level of expenditures.

Summary of Expenditures (dollars in thousands)	2003-04	2004-05	\$ Change	% Change
HHSDC Revolving Fund	\$313,674	\$311,412	-\$2,262	-0.7
(Operations)	118,348	119,418	1,070	0.9
(Systems Management Services)	195,326	191,944	-3,382	-1.7
Total	\$313,674	\$311,412	-\$2,262	-0.7

Summary of Governor's Budget Reductions and Augmentations

Extends Funding for the CMIPS Contract Procurement. The budget proposes to extend funding for Case Management Information and Payrolling System contract procurement activities for one year to support re-evaluation of the current procurement strategy (\$1.7 million General Fund in the DSS budget). The Administration proposes to migrate the CMIPS system to the California Medicaid Management Information System in order to benefit from enhanced federal financial participation in development costs.

- **Increase funding for the Statewide Fingerprint Imaging System.** The Governor proposes to increase SFIS funding by \$711,000 to support quality assurance and project oversight activities, user training, and application maintenance. Overall costs of the SFIS programs will decrease by \$2.3 million in the budget year.
- **Reduce funding for the Electronic Benefit Transfer Project.** The Governor's budget reduces funding for implementation of the Electronic Benefit Transfer project by \$7 million due to lower costs resulting from revised caseload projections. The budget maintains funding for implementation, and increases funding for system maintenance and operation.
- **Child Welfare Services Case Management System Reduction.** The budget reduces funding for the Child Welfare Services Case Management System Project by \$4.7 million. These savings reflect the transfer of training activities from the Department of Social Services to the Data Center Project Office and elimination of one-time costs incurred in 2003-04.

Issues for Health and Human Services Data Center

AB1753, (Chapter 225 Statutes of 2003), requires the Department of Finance to convene a working group to develop a data center consolidation plan by December 1, 2003, and to develop a data server consolidation plan to be implemented by July 1, 2004. The plan must identify consolidated activities that result in savings of no less than \$3.5 million in General Fund in the 2004-05 fiscal year, and identify data center activities that will produce savings in future fiscal years. The Department of Finance notified the Legislature that it would delay submitting a consolidation plan to allow the new Administration to become familiar with the issues. At this time, a data center consolidation report is under review. The Administration will be considering the consolidation in the context of its broader efforts to reorganize state government and will notify the Legislature once its review is complete.

The proposed Data Center consolidation provides California an opportunity to streamline administrative activities, deliver data services more efficiently, and generate General Fund savings without reducing services. The Legislature may wish to inquire about the status of the consolidation efforts and work to assure that implementation of the plan will generate the intended efficiencies and savings. Further, the Legislature may wish to work with the Administration and the Legislative Analyst's Office (LAO) to consider existing and projected data center rates, the potential for rate reductions and any additional efficiencies that may be realized in the delivery of data center services.

4140 Office of Statewide Health Planning and Development

The Office of Statewide Health Planning and Development (OSHPD) develops plans, policies and programs to assist health care delivery systems in meeting the needs of Californians. OSHPD has four major program areas: (1) healthcare cost and quality analysis; (2) healthcare workforce development; (3) facility/hospital development, including Cal-Mortgage Loan Insurance; and (4) health care information. The OSHPD budget increases by \$1.7 million, or 3 percent above current year expenditures.

Summary of Expenditures (dollars in thousands)	2003-04	2004-05	\$ Change	% Change
General Fund	\$4,929	\$4,166	-\$763	-15.5
Federal Trust Fund	1,285	1,285	0	0.0
Special Funds	46,953	51,510	4,557	9.7
Reimbursements	3,785	1,683	-2,102	-55.5
Total	\$56,952	\$58,644	\$1,692	3.0

Summary of Governor's Budget Augmentations

- **Hospital Construction Plan Review.** The budget provides a \$3.8 million increase to support 50 new permanent positions in the Facilities Development Division. The funding will support prompt review of construction plans as hospitals work to meet California's Seismic Safety requirements. Delays in the review and approval of construction plans may significantly increase construction costs and impede hospital compliance with state seismic safety requirements.
- **Loan Repayment Programs Funding Increases.** The budget provides a \$206,000 increase to support the implementation of a loan repayment program for licensed mental health providers that agree to practice in medically underserved areas. Additionally, the budget provides \$131,000 to implement a scholarship and loan repayment program for vocational nurse students or vocational nurses who agree to practice in medically underserved areas. Finally, the budget increases Registered Nurse Education program funding by \$650,000 to support an increase the scholarship and loan repayment award amounts.
- **Hospital Charge Master Reporting.** The budget provides \$118,000 to design, develop and implement an efficient system to collect, store and disseminate information regarding hospital charges. The funding will support implementation of AB 1627 (Chapter 582, Statutes of 2003) which seeks to provide information about hospital prices to patients, health plans and other healthcare purchasers.
- **New Funds to Review Annual Financial Reporting Systems.** The budget provides \$200,000 in new funding to support development of a feasibility study to update the Health Facility Annual Financial Reporting System, an old mainframe based system used to track, validate, revise and disseminate annual financial disclosure reports submitted by 1,700 health care facilities. Numerous government and non-government entities use the data in this system for various purposes including setting reimbursement rates.

4170 Department of Aging

The Department of Aging is the state agency designated to coordinate resources to meet the long term care needs of older individuals, to administer the federal Older Americans Act and the State Older Californians Act, and to work with Area Agencies on Aging to serve elderly and functionally impaired Californians. The department provides services under: (1) Senior Nutrition Services; (2) Senior Community Employment Services; (3) Supportive Services and Centers; and (4) Special Projects. The overall department's budget increases by \$13,000;

however, the General Fund contribution to the department declines by 4.8 percent, or \$1.7 million.

Summary of Expenditures				
(dollars in thousands)	2003-04	2004-05	\$ Change	% Change
General Fund	\$35,035	\$33,366	-\$1,669	-4.8
State HICAP Fund	1,612	1,773	161	10.0
Federal Trust Fund	139,410	139,456	46	0.0
Special Deposit Account	2,340	1,542	-798	-34.1
Reimbursements	6,914	9,187	2,273	32.9
Total	\$185,311	\$185,324	\$13	0.0

Summary of Governor's Budget Reductions and Augmentation

- **Funding Reduced and Converted to Block Grant.** The Governor's budget reduces funding for aging services, including nutrition programs, supportive services, preventive health, and community service employment, by 5 percent (\$1.7 million) and converts state support for aging services to a block grant. The Administration's intends to realize savings through the elimination of redundant processes, administrative efficiencies, and through reductions in services where other efficiencies and savings are not obtainable.
- **Long-Term Care Ombudsman Program.** The budget provides a net increase of \$1.3 million to the Long-Term Care Ombudsman Program to increase the presence of Ombudsman staff and volunteers as part of efforts to increase the quality of long-term care services. This funding increase is contingent on federal approval.
- **Health Insurance Counseling and Advocacy Program Augmentation.** The budget increases by \$450,000 funding for the Health Insurance Counseling and Advocacy program, which provides community education, counseling and information advocacy services to Medicare beneficiaries.

Issue

Block Grant Funding for Aging Services. The Governor proposes to consolidate state support for aging services including nutrition programs, supportive services, preventive health, and community service employment to a single block grant and to reduce total program funding by five percent (\$1.7 million). The consolidated funds, which consist of \$16.4 million for Older Americans Act (OAA) programs and \$15 million for Community-Based Services Programs, will be provided to local area agencies on aging in a block grant. Local agencies will have discretion over funding decisions, within statutory constraints. Agencies are required to spend the consolidated funds to support Older Americans Act, Title IIIB (Supportive Services), or IIIC (Nutrition) programs.

Local Area Agencies on Aging have significant discretion to determine funding priorities. They are authorized to transfer up to 40 percent of federal OAA funding between congregate meals and home delivered meals, and up to 30 percent of federal funds between nutrition programs and supportive services. Further, they can transfer funding among Community Based Services programs (CBSP). CBSP programs include the Foster Grandparent Program, Senior Companion

Program, Respite Registry, Linkages, Alzheimer Day Care Resource Centers, the Brown Bag Program and Purchase of Services. Current law does not permit transfers between OAA funding and Community Based Services program funding. The Governor's proposed block grant would consolidate these two funding streams thereby allowing local agencies to determine the level of funding for the different programs.

The Governor's proposal may increase the ability of local agencies to adapt program funding to better meet local needs. However, the proposed block grant funding may erode or eliminate state standards, may lead to elimination of existing programs, and may reduce the state's ability to assure that long-term care funding and funding for aging services is spent in the most cost-effective manner. The Legislature may wish to consider how the Governor's proposal will affect program operation and program quality including adherence to federal and state standards. For example, how will CBSP programs fit into federal OAA programs? Can existing state standards be applied to the federal programs? How will the state monitor and evaluate programs to ensure there is quality control across the state? The Administration intends to work with stakeholders to review current state and federal standards and determine if existing CBSP program standards should be applied to the federal programs.

The Legislature may wish to consider the existing local area agency needs assessment process and whether it adequately captures local needs. Local agencies are required to conduct a needs assessment every four years. They have a significant amount of discretion in how they complete the assessment. Some local agencies offer public hearings, whereas others send out questionnaires to local consumers and use results of the questionnaire to determine area need. As such, the assessments yield varying amounts of information, may not accurately reflect local needs, and may not adequately capture the needs of hard to serve populations. When considering the Governor's block grant proposal, the Legislature may wish to examine the needs assessment process and make any necessary changes to improve the quality of the information agencies rely on to establish local funding priorities.

The Legislature may also wish to consider the impact of the Governor's proposal on the workload of the Department of Aging and the department's continued ability to provide state leadership on aging issues. Current law establishes the mission of the department "to provide leadership to the area agencies on aging in developing systems of home- and community-based services that maintain individuals in their own homes or least restrictive homelike environments." Under the Governor's proposal, local agencies will assume responsibility for setting program priorities and making funding decisions. The department may be relegated to an administrative role, but will remain responsible for fiscal and programmatic monitoring of federal aging programs.

4200 Department of Alcohol and Drug Programs

The Department of Alcohol and Drug Programs (DADP) receives and disburses federal and state alcohol and drug funds to plan, develop, implement and evaluate a statewide system for alcohol and other drug intervention, prevention, detoxification, treatment and recovery services. The department is the lead agency in the implementation of Proposition 36 (the Substance Abuse and Crime Prevention Act of 2000). Expenditures in the budget year are proposed to decrease by \$6.5 million (1.1 percent).

Summary of Expenditures (dollars in thousands)	2003-04	2004-05	\$ Change	% Change
<i>Program Funding</i>				
Prevention	\$70,988	\$67,816	-\$3,172	-4.5
Treatment and Recovery	480,168	476,672	-3,496	-0.7
Perinatal	46,623	46,823	200	0.4
<i>Source of Funding</i>				
General Fund	\$233,200	\$237,793	\$4,593	2.0
Driving-Under-the-Influence	1,634	1,634	0	0.0
Program Licensing Fund				
Narcotic Treatment Program	1,135	1,135	0	0.0
Licensing Fund				
Indian Gaming Special Distribution Fund	3,000	0	-3,000	-100.00
Audit Repayment Trust Fund	67	67	0	0.0
Federal Trust Fund	286,356	281,810	-4,546	-1.6
Resident Run Housing Revolving Fund	39	39	0	0.0
Reimbursements	73,861	70,601	-3,260	-4.4
Substance Abuse Treatment Trust Fund	120,487	120,232	-255	-0.02
Total	\$597,779	\$591,311	-\$6,468	-1.1

Summary of Governor's Budget Reductions and Augmentations

- **Funding Eliminated for the Office of Problem and Pathological Gambling.** Established by Assembly Bill 673 (Chapter 210, Statutes of 2003), the Office of Problem and Pathological Gambling is charged with developing a problem gambling prevention program to include public awareness and prevention campaigns, a toll-free telephone referral service, research programs and training programs. The proposed elimination will generate \$3 million in Indian Gaming Special Distribution Fund savings.
- **Drug Medi-Cal Funding Increase.** The budget increases funding for the Drug Medi-Cal program by \$5.4 million to reflect caseload changes and other program adjustments. Drug Medi-Cal rates are not affected by the Governor's proposed Medi-Cal provider rate reductions. Reimbursement rates are maintained at their current level.
- **Prevention Services.** The budget maintains \$3.5 million in federal funding for the Screening, Brief Intervention, Referral and Treatment Grant to support local projects that implement science based substance abuse prevention programs that target youth including projects that work to reduce binge drinking among 12-to 25-year old youth.
- **State Operations Increase to Implement Performance Partnership Grants.** The budget increases state operations funding by \$260,000 in federal funds to evaluate, plan and implement Performance Partnership Grants (PPG), a soon to be required process to establish

accountability measures on outcomes and performance measures for designated federally funded program. PPG will require states to measure performance on core indicators including alcohol use, all other drug use, criminal justice involvement, employment, pregnant addicts, and HIV transmission.

5160 Department of Rehabilitation

The Department of Rehabilitation assists people with disabilities to obtain and retain employment and to maximize their ability to live independently in the community. The department operates the Vocational Rehabilitation Services program, funded primarily with federal funds, to provide vocational services to persons with disabilities. Some of these services are provided through cooperative agreements with other state and local agencies (education, mental health, welfare). The department provides habilitation services, vocational and supported employment services for persons with developmental disabilities, using state funds and federal Home and Community Services Medicaid reimbursements. It also provides support services for Community Rehabilitation Programs, including independent living centers. The budget is anticipated to be \$350.6 million (\$44.2 million General Fund) in the budget year. It reflects a 26 percent decrease from prior-year funding resulting from the transfer of the Habilitation Services program from the Department of Rehabilitation to the Department of Developmental Services.

Summary of Expenditures				
(dollars in thousands)	2003-04	2004-05	\$ Change	% Change
<i>Program Funding</i>				
Vocational Rehabilitation Services	\$323,314	\$327,939	\$4,625	1.4
Habilitation Services	128,066	0	-128,066	-100.0
Support of Community Facilities	22,609	22,619	10	0.0
<i>Source of Funding</i>				
General Fund	\$149,948	\$44,200	-\$105,748	-70.5
Vending Stand Account	3,421	3,394	-27	-0.8
Federal Funds	291,293	295,064	3,771	1.3
Reimbursements	29,327	7,900	-21,427	-73.1
Total	\$473,989	\$350,558	-\$123,431	-26.0

Summary of Governor's Budget Reductions and Augmentations

- Transfers Habilitation Services Program.** The budget reduces local assistance funding by \$125.6 million and state operations funding by \$2.3 million due to the transfer of the Habilitation Services Program from the Department of Rehabilitation to the Department of Developmental Services and to be administered locally by Regional Centers. The program transfer, which will be effective July 1, 2004, was authorized by Assembly Bill 1753 (Chapter 226, Statutes of 2003). The transfer maintains existing provider standards and reimbursement rates. It is intended to improve the coordination of services provided to persons with developmental disabilities while generating budget savings through administrative efficiencies.

- **Budget Rescinds Proposed Cap for Vocational Rehabilitation Services.** The Governor's budget rescinds the mid-year proposal to cap Vocational Rehabilitation Services and Habilitation Services provided by the Department of Rehabilitation. Implementing the proposed cap would have led to increased demand for Regional Center services.

5175 Department of Child Support Services

The Department of Child Support Services (DCSS) administers the child support enforcement program operated by local child support agencies. The Department provides state direction to assure that child support funds are established, collected, and distributed to families, including securing child and spousal support, medical support, and determining paternity. The Department continues to have responsibility for addressing federal fiscal sanctions related to California's failure to develop adequate systems in the past. The department oversees local program and fiscal operations, administers the federal Title IV-D state plan for securing child support, and establishes performance standards for California's child support program. The budget anticipates collections of \$2.4 billion in the budget year. The department's overall budget expenditures are proposed to increase by \$43.4 million, or 3.5 percent.

Summary of Expenditures				
(dollars in thousands)	2003-04	2004-05	\$ Change	% Change
General Funds	\$468,741	\$499,272	\$30,531	6.5
Federal Funds	478,084	491,479		
Reimbursements	122	443	321	263.1
Child Support Collection Recovery Fund	298,955	298,063	-892	-0.3
Total	\$1,245,902	\$1,289,257	\$43,355	3.5

Summary of Governor's Budget Reductions and Augmentations

- **Require County Share of the Federal Child Support Automation Penalty.** The Governor proposes a permanent 25 percent county share of the alternative federal penalty, a penalty resulting from the state's failure to implement a single statewide automated child support system. The budget assumes \$55 million in General Fund revenues from this proposal.
- **Eliminate County Share of Child Support Collections.** The budget proposes to eliminate payment of the county share of child support collections for an increase in General Fund revenues of \$39.4 million. The county-share of child support collections stems from the distribution of collections made on behalf of families receiving public assistance and is consistent with the county-share of funding for CalWORKs and Foster Care.
- **Funding for California Child Support Automation System.** The budget provides \$1 million (\$347,000 General Fund) for support of the California Child Support Automation System (CCSAS) Project. Of this amount, \$191,000 is for activities associated with the procurement and development of the State Disbursement Unit (SDU) and \$828,000 is for oversight and management of the development of the Child Support Enforcement (CSE)

component of CCSAS. In addition, the budget also provides \$31.5 million (\$8.2 million General Fund) in local assistance funding for CCSAS costs, including funding for local staff to assist with the development of the SDU and the CSE component of CCSAS, funding for the conversion of two county consortia, and support for post-conversion activities.

- **Reduction of Local Assistance Funding.** The proposed budget reduces funding for local program administration by \$682,000. The budget reflects elimination of the medical support enhancement program, which was intended to increase cost recovery for public health insurance program expenditures.
- **Increase General Fund Support of Program.** The budget increases General Fund support for the child support program by \$7.2 million to reflect a reduction in the federal incentive funds earned by the state. The overall level of program funding is unchanged by the increase in General Fund support for the program.
- **Alternative Federal Penalty.** The budget provides an \$11.4 million General Fund augmentation to fully fund the alternative federal penalty. Since 1997, the state has been required to pay this penalty due to the state's failure to implement a single statewide child support automation system.

Issues for the Department of Child Support Services

1. Development of CCSAS and Federal Penalty. Since 1997, California has been subject to substantial federal penalties due to the state's failure to establish a single statewide system for the collection of child support by the federal deadline. The penalties are a percentage of program administration costs and the percentage rises over time. California has reached the maximum percentage level and is estimated to pay \$220 million in the budget year. The budget provides an increase of \$11.4 million to fully fund the penalty in the budget year. California is in the early stages of developing the California Child Support Automated System (CCSAS) which when implemented on a statewide basis will obviate federal penalties.

The Legislature may wish to review the status of development of the CCSAS system, whether development is progressing as scheduled, and consider any factors that may negatively impact the project. Further, the Legislature may wish to request that the Administration pursue federal penalty relief, as development of the required automation system is under way.

2. Require County-Share of Alternative Federal Penalty. The Governor proposes to establish a permanent 25 percent county share of the alternative federal penalty for General Fund revenues of \$55 million. Current law provides for payment of the penalty through a reduction in federal funds for state and county administration of the child support program. Since 1997, California has waived the mechanism for paying the penalty county child support program funds and has appropriated General Fund dollars to pay for the penalty. Last year, the Legislature enacted a one-year 25 percent county share of the alternative federal penalty. The Governor proposes to make permanent the 25 percent county share of the penalty assessed in the current year.

Counties have historically opposed the proposed county share of the alternative federal penalty. Counties: (1) argue that they were not responsible for the state's failure to develop the required automation system, (2) assert that they have no control over development of the new system, and

(3) argue that the county share of the penalty reduces available county discretionary funds to support fire, police and other county services. The Legislature may wish to consider this proposal as part of its review of the Governor's proposed local government funding reductions.

3. Elimination of County Share of Child Support Collections. The Governor's budget proposes to eliminate payment of the county share of child support collections for an increase in General Fund revenues of \$39.4 million. The county share of child support collections results from the distribution of collections made on behalf of families receiving cash assistance or children participating in the Foster Care Program. It is intended as a mechanism for public assistance cost recovery and is consistent with the county-share of funding for CalWORKs aid payments and Foster Care Payments. The Legislature may wish to consider the extent to which the county-share of child support collections works as a performance incentive for local child support programs and the potential impact on program performance of departing from the current collections distribution system.

The Legislature may also wish to consider the impact of the Governor's proposal on funding for human services programs as counties reportedly spend revenues from child support collections on human services programs.

4. Local Child Support Program Compensation and Program Performance. Last year, the Legislature considered the effect on program performance of child support administrative funding reductions, and the relationship of existing allocations to program performance and actual costs. Analysis conducted by Committee staff and the LAO revealed substantial differences in per-case funding across counties. Program performance also varied across the state and did not appear to correlate to per-case funding, geographic region, or county economic condition.

The Legislature enacted AB 1752 (Chapter 225, Statutes of 2003) to consider the relationship between allocation methodologies and program performance, and review alternative methodologies to allocate child support program funding. The law requires the DCSS to work with stakeholders, including counties, to evaluate the existing reimbursement methodology, consider alternatives and to report to the Legislature by March 31, 2004. The Legislature may wish to consider the Department's report and adopt changes to the existing reimbursement methodology or program funding structure deemed conducive to performance improvements, cost savings and a stronger relationship between program funding and outcomes.

5180 Department of Social Services

The Department of Social Services administers a variety of programs that have four major goals: (1) provide temporary cash assistance and services to encourage low-income families with children to attain self-sufficiency by moving from welfare to permanent employment; (2) provide social services to elderly, blind, disabled and other adults and children, protecting them from abuse, neglect and exploitation, and helping families stay together and in the community; (3) regulate group homes, preschools, foster care homes, day care and residential care facilities to ensure they meet established health and safety standards; and (4) conduct disability evaluations and provide benefit payments for federal and state programs serving the aged, blind and disabled. The budget proposes an overall decrease of \$974 million, or 5.8 percent.

Summary of Expenditures (dollars in thousands)	2003-04	2004-05	\$ Change	% Change
<i>Program Funding</i>				
CalWORKs	\$5,222,738	\$4,654,576	-\$586,162	-11.2
In-Home Supportive Services (IHSS)	3,181,339	2,721,296	-460,043	-14.5
SSI/SSP	3,382,862	3,346,996	-35,866	-1.1
Foster Care	1,743,818	1,723,211	-20,607	-1.2
Child Welfare Services	2,011,387	2,057,803	46,416	2.3
Adoption Assistance and Kin-GAP	604,440	669,213	64,773	10.7
<i>Source of Funding</i>				
General Fund	\$8,233,481	\$8,167,555	-\$65,926	-0.8
Emergency Food Assistance Fund	437	387	-50	-11.4
Cont. Care Provider Fee Fund	975	975	0	0.0
Technical Assistance Fund	3,138	3,138	0	0.0
Certification Fund	1,139	1,139	0	0.0
Child Health and Safety Fund	1,330	1,329	-1	-0.1
Employment Training Fund	56,432	56,432	0	0.0
State Children's Trust Fund	1,943	6,440	4,497	231.4
Transitional Housing for Foster Youth	5,060	6,099	1,039	20.5
Federal Funds	6,355,795	5,648,616	-707,179	-11.1
Reimbursements	2,174,788	1,969,233	-205,555	-9.5
County Funds (Non-add)	1,353,098	1,362,449	9,351	0.7
Total	\$16,829,953	\$15,856,057	-\$973,896	-5.8

CalWORKs

Program Description and Summary of Enrollment. CalWORKs provides cash benefits and welfare-to-work services to children and their parents or caretaker relatives who meet specified eligibility criteria including having a family income below the CalWORKs minimum basic standard of adequate care, having less than \$2000 in resources, and having a car valued at \$4,650 or less. The average family of three must have an annual net income below \$11,772 or 77 percent of the federal poverty level to be eligible for CalWORKs. CalWORKs recipients are required to participate in welfare-to-work activities and perform a minimum of 32 hours of work activities per week to remain eligible for benefits.

After peaking in March of 1995, CalWORKs enrollment has dropped by 48.7 percent through 2003. Enrollment decreased by 34.3 percent since the CalWORKs program was implemented in 1998. The caseload decline is due to a combination of demographic trends (such as decreasing birth rates for young women), California's economic expansion, and full implementation of welfare reform. After years of declines, the Department of Social Services estimates enrollment will decrease by 0.7 percent in 2003-2004, and increase by 0.4 percent in 2004-2005. The budget assumes that the final CalWORKs average monthly enrollment will be 469,077.

Summary of Funding. CalWORKs is currently funded through an annual federal block grant of \$3.7 billion and state-matching funds of \$2.7 billion. California's \$2.7 billion federally required state share is based on welfare spending in 1994, adjusted downward for achievement of certain work participation goals. Federal law requires states to spend Temporary Aid for Needy Families (TANF) funds on current and former welfare recipients with some limited exceptions. Accordingly, California spends most federal funds on CalWORKs, and directs some TANF funds and some of the state's share-of-cost to activities in other departments.

The budget proposes total TANF/MOE funding of \$6.5 billion (\$4.9 billion of which will be spent on the CalWORKs program and \$1.6 billion to support non-CalWORKs federally allowable activities). This constitutes a \$563.2 million, or 11 percent decrease in CalWORKs expenditures from the current year. The CalWORKs budget includes the following major components:

CalWORKs Grants

- **Reduces CalWORKs Grants by 5 percent.** The Governor proposes to reduce the maximum aid payment under CalWORKs by approximately 5 percent to \$669 for a family of three to generate General Fund savings of \$222.2 million. This proposal will result in 6,100 families becoming ineligible for CalWORKs.
- **Reduces Safety Net Grants by 25 percent.** The Governor proposes to reduce Safety Net grants received by families with non-working adults by 25 percent for General Fund savings of \$28 million in 2004-05. Safety Net grants are child-only grants that provide cash assistance to children whose parents or caretaker relatives have exceeded their 60-month lifetime limit for receipt of cash aid. Under the proposal, the maximum monthly safety net grant for a family of three with non-working adults will be reduced by \$163 to \$405.
- **Reduces Grants in Sanction Status by 25 percent.** The Governor proposes a 25 percent reduction of the grant received by families with an adult that is not complying with CalWORKs requirements after one month of non-compliance for General Fund savings of \$33 million. Currently, adults on CalWORKs that do not comply with certain program requirements are sanctioned and grants are reduced by the adult component of the grant. The Governor proposes a further reduction (25 percent) in the grant for families in sanction status for two months or longer.
- **Suspends CalWORKs Cost-of-Living Adjustment.** The Governor proposes legislation to suspend the annual COLA for CalWORKs grants for the 2004-2005 fiscal year to generate savings of \$98.5 million General Fund.
- **De-link CalWORKs COLA from Vehicle License Fee.** The Governor proposes legislation to de-link the CalWORKs annual COLA from the Vehicle License Fee for cost avoidance of \$90.5 million in 2003-04 and \$125.8 million in 2004-05.

CalWORKs Program Reforms

- **Changes in Work Participation Requirements.** Currently, recipients can satisfy CalWORKs work requirements by participating in activities that will lead to employment, including education and training programs, within the first 18 to 24 months they are on aid. The Governor proposes to eliminate the 18 to 24 month time limit and to require most adults to participate in work related activities within 60 days of receiving aid to realize \$101.9 million in General Fund savings.

Other CalWORKs

- **Elimination of TANF Support for Juvenile Probation.** The Governor's budget eliminates TANF funding for juvenile probation activities, including after care services, juvenile camps, and services delivered to youth in juvenile assessment and residential treatment facilities for TANF savings of \$134.3 million.
- **Transfers TANF to non-CalWORKs Programs.** The Governor proposes to increase TANF fund transfers to support non-CalWORKs activities. The budget proposes the following new or increased TANF transfers: \$56 million to the Foster care program, \$52.5 million to Child Welfare Services, \$48 million to the Department of Developmental Disabilities and \$18 million to fund activities associated with implementation of the state's Children's Services Program Improvement Plan.
- **CalWORKs 60-month Time Limit.** The budget assumes grant savings of \$135.8 million because thousands of recipients will reach their total 60-month time limit of eligibility.
- **Implementation of Prospective Budgeting.** The Governor's budget reduces funding for CalWORKs administration by \$102.2 million due to the implementation of prospective budgeting by June 30, 2004. Prospective budgeting will require beneficiaries to report their earnings and other eligibility related information on a quarterly basis instead of every month. The budget assumes savings due to decreases in the number of reports counties will process.
- **Reduced Funding for Tribal TANF.** The Governor proposes to reduce state funding by \$30.5 million for Tribal TANF programs by \$30.5 million to reflect actual caseload levels. Federal funding for Tribal TANF programs remains at the prior-year level and is based on the federal fiscal year 1994 caseload levels and costs.
- **Stage One Child Care Funding.** The Governor assumes \$41.8 million in Stage-one child care savings resulting from implementation of proposed child care reforms. The reforms include reimbursement rate changes and eligibility changes including elimination of child care services for 11 and 12 year olds.
- **CalWORKs for Legal Immigrants.** The Governor proposes to cap enrollment for the CalWORKs program for legal immigrants on April 1, 2004, to eliminate the program by

October 2004, and to provide Block grant funding for safety net services delivered to legal immigrants for savings of \$2.4 million General Fund in 2004-05.

- **Eliminates Substance Abuse Treatment Program for Low-Income Women.** The Governor proposes to eliminate the Low-Income Women Outpatient Substance Abuse Treatment and Supportive Housing Program for savings of \$2 million. The program provides transitional services to low-income women in need of substance abuse treatment services who are not eligible for other substance abuse treatment services.
- **Terminates Funding for Services Delivered by Indian Health Clinics.** The budget terminates funding for mental health and substance abuse services delivered by Indian Health Clinics to CalWORKs beneficiaries for savings of \$2.7 million. Services include outreach, mental health or substance abuse screenings, providing individual or group treatment services, and facilitating the integration of clients into CalWORKs welfare-to-work services.
- **Youth Development Services Projects Funding.** The budget eliminates funding for Youth Development Services Projects for savings of \$1.5 million. This funding supports leadership training and skills building activities offered by Boys and Girls Clubs programs to at-risk youth.

Issues for the CalWORKs program

1. CalWORKs Funding Structure and Maintenance-of-Effort Requirements. CalWORKs is funded through a federal TANF block grant, which combined with required state matching funds amounts to \$6.4 billion. As a condition of receiving TANF funds, state funding must be at least 75 percent of the state's federal fiscal year (FFY) 1994 expenditures level (\$2.7 billion).

As a matter of policy, California has chosen to treat the federally required MOE level as a ceiling for CalWORKs spending. The state has also broadened its definition of expenditures that can be considered to meet the MOE and has transferred a growing amount of TANF funds to non-CalWORKs programs. The combined effect of these policies is that the state has had to reduce components of the CalWORKs programs to fund other priorities.

Slowing caseload declines, scheduled COLAs and a growing demand for welfare-to-work services are estimated to increase CalWORKs costs by \$618.9 million above the MOE level. The Governor proposes to reduce funding for CalWORKs by \$563.2 million and proposes to avert \$216.3 million in CalWORKs costs to maintain CalWORKs funding at the MOE level, while transferring another \$160.6 million to non-CalWORKs programs.

California's continued use of TANF funds to support non-CalWORKs programs has affected the affordability of the CalWORKs program. California will most likely not be able to fund the current CalWORKs program and proposed TANF transfers while maintaining General Fund spending at the MOE level. The Governor's proposed work participation reforms, eligibility changes and modifications to grants should be considered in the context of TANF Reauthorization proposals, and overall pressures within the CalWORKs budget and legislative priorities. The Legislature may wish to examine the existing CalWORKs program, determine the level of CalWORKs services and assistance that it wishes to offer and provide funding commensurate with legislative priorities. It may be beneficial for the Legislature to establish

priorities within CalWORKs program funding and to determine the balance it wishes to maintain between funding for welfare-to-work services and grants.

2. CalWORKs Work Participation Reforms. The Governor proposes to require job search as a condition of eligibility and to require most adults receiving CalWORKs to work or participate in work related activities for at least 20 hours per week, within 60 days of receipt of aid. The reforms seek to strengthen the program's focus on work and to increase California's work participation rate, which currently is 27 percent. The Governor's proposed reforms generate net savings of \$10.1 million.

CalWORKs requires most parents to participate in at least 32 hours of work activities per week to receive cash assistance. Currently, recipients can satisfy CalWORKs work participation requirements within the first 18 to 24 months they are on aid by participating in activities that will lead to employment, including education and training programs, and activities that reduce barriers to employment such as receiving substance abuse or mental health treatment. The Governor proposes to eliminate the 18 to 24 month time limit and to require most adults to participate in work related activities within 60 days of receiving aid. The activities that count towards fulfillment of the 20-hour requirement are limited to unsubsidized employment, subsidized employment, supervised community services and job search for up to 8 weeks.

The Governor's proposed changes are consistent with some Congressional TANF Reauthorization proposals, but the Governor's reforms are more restrictive than the federal proposals. Congressional TANF Reauthorization proposals increase work participation requirements and scale back caseload decline credits. However, they permit states to count, for at least 3 months in a 24 month period, time spent in education and training programs and time spent in activities that remove barriers to employment towards meeting work participation requirements. The Governor's proposal does not consider participation in non-work activities towards the 20-hour requirement. Therefore, the Administration's proposal gives parents and counties considerably less flexibility than federal proposals. Further, the Governor's proposed changes represent a significant departure from the current CalWORKs program, which provides counties substantial flexibility in designing local programs and adapting requirements to local needs while maintaining statewide eligibility criteria.

The Governor also proposes to change CalWORKs eligibility criteria to require that applicants search for work as a condition of eligibility. The budget does not specify how applicants will meet this requirement or how this proposal will impact demand for county services. The Administration intends to provide counties flexibility to implement the new applicant job search requirement as a condition of eligibility. Such local flexibility in establishing eligibility criteria is a departure from the existing CalWORKs program which establishes uniform statewide eligibility criteria.

The Legislature may wish to consider the Governor's proposed work participation reforms in the context of the existing CalWORKs program design and federal TANF Reauthorization proposals. While the Governor's proposals are consistent with proposed federal TANF Reauthorization legislation, enactment of the reforms will most likely not obviate the need to make changes to the CalWORKs program when Congress approves Reauthorization.

In addition, the Governor's budget provides increased funding for child care services to support the work participation changes. The budget does not provide similar increases for employment

services and other county provided welfare to work services. The Legislature may wish to consider whether the budget provides adequate funding to meet the increased demand for county delivered services that will result from proposed changes in work participation requirements.

According to the Department of Social Services, CalWORKs applicants will likely be eligible for assistance with job search and supportive services including child care during the application process. Substantial numbers of applicants for CalWORKs do not complete the application process or are found ineligible for assistance. The Legislature may wish to determine whether it is appropriate to provide CalWORKs services to applicants who do not become CalWORKs beneficiaries. Similarly, the Legislature may wish to consider the implication of requiring job search as a condition of eligibility but not providing applicants the tools necessary to achieve the eligibility criteria.

3. CalWORKs Grant Reduction and Suspension of COLAs. The Governor proposes to reduce CalWORKs grants by 5 percent and to suspend CalWORKs COLAs for a General Fund savings of \$321 million and \$216.3 million in cost avoidance. The following chart illustrates the effect of the Governor's proposals on CalWORKs grant levels:

CalWORKs Grants	
Current Grant for a family of 3	\$704
October COLA	24
July COLA	21
	<hr/> \$749
Total Grant after 5% Grant Reduction	\$669
Offsetting increase in Food Stamps	\$16
Lost Income to families	\$64
Grant in 1989	\$694
Work Hours to Replace Lost Income	9.5

- **Governor's Proposed Suspension of CalWORKs Cost-of-Living Adjustment.** The Governor's budget suspends the 2004-2005 CalWORKs COLA to realize savings of \$98.5 million. Current law provides an annual COLA for CalWORKs grants that is based on the California Necessities Index. The scheduled COLAs will increase the maximum CalWORKs grant from \$704 to \$724. Suspension of the COLAs will maintain grants at their current level and will not keep pace with cost-of-living increases such as rising housing costs.
- **Governor's Proposal to De-link CalWORKs COLA for Vehicle License Fee.** The Governor proposes legislation to de-link the CalWORKs COLAs from the Vehicle License fee to avert \$216.3 million in General Fund costs. Current law establishes a link between the provision of a CalWORKs cost of living adjustment and relief in the vehicle license fee. Specifically, it provides that in fiscal years 2001-02 through 2003-04, when there is an

increase in vehicle license fee relief, the CalWORKs COLA increase shall occur, and that when there is no vehicle license fee tax relief, any COLA increase shall be suspended. The Governor proposed legislation in Special Session to sever the relationship between the CalWORKs COLA and the vehicle license fee.

The Administration did not provide a CalWORKs COLA when it rolled back the increase in the Vehicle License fee triggered in the summer of 2003. The Governor's decision to withhold the CalWORKs COLA is the subject of *Guillen v. Schwarzenegger*, a recent legal challenge which seeks to compel the state to provide a CalWORKs cost-of-living adjustment.

- **Governor's Proposed Grant Reduction.** The Governor's budget proposes to reduce the maximum aid payment under CalWORKs by approximately 5 percent to \$669 for a family of three for General Fund savings of \$222.2 million.

The Governor proposes to reduce CalWORKs grants by \$35 per month. The reduction will be partially offset by a \$16 increase in monthly food stamps benefits. Overall, a family of three, with no earned income will experience a decrease in their income from 78 to 76 percent of the federal poverty level, or from \$981 to \$962 per month.

CalWORKs recipients expend most of their grant on rent and utilities. According to the U.S. Department of Housing and Urban Development, fair market rents for a one-bedroom apartment in California average \$657 per month and range from \$406 in Modoc to \$1535 in San Mateo. Since 1990, rent prices have increased by 36 percent and the purchasing power of a CalWORKs grant has declined by 29 percent.

In addition to decreasing resources available to very low-income families, the budget's grant reduction will make 6,100 families ineligible for CalWORKs cash assistance as program eligibility is linked to the CalWORKs maximum aid payment.

The Governor's proposed CalWORKs grant changes will have a combined effect of reducing the monthly income for a family of three with no earnings, by \$64. The proposals will generate \$321 million in General Fund savings and \$216.3 million in cost avoidance. The Legislature may wish to consider the combined effect of the Governor's proposed grant changes on families receiving cash assistance and the impact of the grant reduction on families who will become ineligible for aid. The Legislature may also wish to consider the effect of grant changes on CalWORKs exits and work participation rates. It will be important to examine the Governor's proposed grant changes in the context of the state's grant structure, which includes earned income disregards. The Legislature may wish to consider the overall pressure on the CalWORKs budget, the Governor's proposed reforms and grant changes, and determine the appropriate balance between funding for CalWORKs services and grants.

4. **CalWORKs for Legal Immigrants.** The Governor proposes to: (1) cap enrollment for the CalWORKs program for legal immigrants on April 1, 2004; (2) eliminate the program by October 2004; and (3) provide Block grant funding for legal immigrant safety net services for savings of \$2.4 million General Fund in 2004-05. California's CalWORKs program provides legal permanent residents cash assistance and welfare-to-work services subject to the same eligibility criteria and work requirements as non-immigrants families.

The Governor eliminates this program as part of his proposal to reduce discretionary state programs that serve immigrants. Funding for this program is counted towards the TANF MOE,

therefore, the program is as discretionary as many components of CalWORKs including, safety net grants and funding for substance abuse services.

The Governor's proposal raises concerns and multiple implementation issues including how county specific waiting lists will work, how to provide counties the proposed flexibility while assuring funds are spent on MOE eligible services, and the effect of disparities in service eligibility for similarly situated children and families. However, the most important decision is whether the Legislature wishes to reduce California's commitment to providing assistance to low-income legal permanent residents and their children.

Supplemental Security Income/State Supplementary Program (SSI/SSP)

Program Description. The SSI/SSP program provides cash grants to persons who are elderly, blind and/or too disabled to work and who meet the program's federal income and resource requirements. Individuals who receive SSI/SSP are categorically eligible for the Aged, Blind or Disabled Medi-Cal Program with no share of cost, for the In-Home Supportive Services Program, and may be eligible for other programs designed to support individuals living in the community.

The SSI/SSP program is administered by the federal Social Security Administration. The Social Security Administration determines eligibility, computes grants, and disburses monthly payments to recipients. The state contributes the State Supplementary Program portion of the program.

Summary of Enrollment. Approximately 1.2 million Californians receive SSI/SSP. Over two-thirds of the recipients are disabled, 30 percent are elderly, and two percent are blind.

The budget estimates that program enrollment will grow by 2.2 percent in the 2003-2004 fiscal year, and by 2.1 percent in the 2004-2005 fiscal year. The total caseload for 2004-2005 is estimated to be 1,178,000. Due to changing demographics and a projected increase in California's aging population, the SSI/SSP program caseload is likely to continue to grow in future years.

Summary of Funding. The budget proposes basic SSI/SSP program costs for the 2004-2005 fiscal year to be \$7.7 billion (\$2.9 General Fund).

Summary of Governor's Reductions

- **Does Not Pass-Through Federal SSI COLA.** The Governor proposes to suspend the state pass-through of the federal SSI COLA in 2004-05 for a savings of \$62.5 million General Fund. SSI/SSP grants have two components, the SSI component, which is federally funded, and the SSP component, which is state funded. The budget proposes to reduce the SSP component of the grant by the same amount as the federally funded January 2005 SSI COLA, thereby reducing state SSP expenditures in the budget year.
- **Suspends State SSI/SSP Cost-of-Living Adjustment.** The Governor proposes to suspend the 2004-2005 state funded SSI/SSP COLA for savings of \$84.6 million General Fund.

Issues for the SSI/SSP program

1. Elimination of Pass-Through of Federal SSI Cost-of-Living Adjustment. Federal law provides a cost-of-living adjustment to the SSI portion of grants that is based on the Consumer Price Index. Since January 2004, state law provides automatic pass through of the federal COLA to SSI recipients. In January 2005, the federal SSI adjustment will increase the maximum grant for an individual by \$10 to \$800 per month. The Governor proposes to withhold the federal COLA for a savings of \$62.5 million.

2. Suspension of State SSI/SSP Cost-of-Living Adjustment. The budget suspends the 2004-2005 state cost-of-living adjustment for the SSI/SSP program to realize savings of \$84.6 million. Current law provides an annual state COLA for SSI/SSP grants, which is based on the California Necessities Index. The scheduled COLAs will increase the maximum SSI/SSP grant for an individual from \$790 to \$812, and from \$1,399 to \$1,438 for couples. Suspension of the state COLA will maintain grants at a level that does not keep pace with cost-of-living increases such as rising housing costs.

California's SSI/SSP beneficiaries are ineligible for Food Stamps benefits and depend on their grants to pay for rent, food, clothing and other necessities. They expend most of their grant on rent and utilities. According to the U.S Department of Housing and Urban Development, fair market rents for a studio apartment in California average \$555 per month and range from \$332 in Alpine to \$1,250 in Santa Clara. Since 1990, rent prices have increased by 36 percent and the SSI/SSP purchasing power has declined by 18 percent.

Cash Assistance Program for Immigrants

Summary of Funding and Enrollment. The Cash Assistance Program for Immigrants (CAPI) was established in 1997 to provide cash benefits to aged, blind and disabled legal immigrants who became ineligible for SSI as a result of welfare reform. This state-funded program is overseen by the Department of Social Services and administered locally by counties. CAPI serves approximately 11,000 individuals each year. Enrollment is relatively stable and is expected to decline over time. The Budget Act of 2003 provided \$94.1 million to fund CAPI.

Summary of Governor's Reductions

- **Cap CAPI Enrollment.** The Governor proposes to cap enrollment for CAPI on April 1, 2004 for savings of \$4.2 million. Counties will be required to screen for eligibility and maintain a waiting list. Beneficiaries will become eligible for services on a first-come, first-served basis. The budget does not provide any funding for increased administrative costs associated with administration of the proposed cap.
- **Block Grant Funding for Legal Immigrant Services.** The Governor proposes to eliminate the CAPI program and instead provide block grant funding to counties to support safety net programs for immigrants effective October 2004 for General Fund savings of \$3.1 million. There are numerous programmatic issues to be resolved prior to implementation of this proposal, including how waiting lists will operate, the level of local flexibility to be provided, and the administrative efficiencies or complications resulting from the proposal. The Administration intends to develop this proposal in greater detail by the May Revision.

Beyond implementation issues, it is important for the Legislature to decide whether to reduce or maintain California's commitment to providing assistance to low-income aged, blind or disabled legal permanent residents.

California Veterans Cash Benefit Program

Summary of Funding and Enrollment. The California Veterans Cash Benefit Program established by Assembly Bill 1978 (Chapter 143, Statutes of 2000) provides cash assistance to Filipino veterans of World War II who were receiving state supplementary payment benefits on December of 1999 and who have returned to the Republic of the Philippines. The veterans receive a payment equivalent to California's state supplemental payment. The veterans also receive a federal cash benefit, which currently amounts to \$414 per month. The California Veterans Cash Benefit program serves approximately 1,700 veterans on an annual basis.

Summary of Governor's Reduction

Elimination of the California Veterans Cash Benefit Program. The Governor proposes to eliminate the California Veterans Cash Benefit Program for General Fund savings of \$1.2 million in the current year and \$5.5 million in 2004-05. Veterans will continue receiving existing federal benefits.

Food Stamps

Program Description and Summary of Enrollment. The Food Stamps program provides food assistance at no cost to eligible low-income families and individuals. The program is overseen by the Department of Social Services and is administered by the counties. The Food Stamps program will serve an estimated 1.8 million persons, approximately 57,500 more than last year. The projected caseload growth stems from an increase in the number of families not receiving cash assistance who participate in the food stamps program and full implementation of the restoration of federal food stamp benefits to immigrants who had lost these benefits as a result of the welfare reform law.

The U.S. Department of Agriculture funds the benefit value of food stamps. The federal government also funds 50 percent of the program's administrative costs. The remaining 50 percent is split between the state and counties at a ratio of 70 percent to 30 percent respectively.

The state also administers the California Food Assistance Program (CFAP), a state-only food stamp program for legal non-citizens. Full implementation of the restoration of federal food stamps benefits to legal immigrants will dramatically reduce CFAP beneficiaries. The estimated caseload at the end of the budget year is approximately 10,200.

Summary of Governor's Proposed Reductions

- **Eliminate Transitional Food Stamps Benefits.** The Governor proposes to eliminate the recently established Transitional Food Stamps Benefits Program to realize savings of \$1.1 million General Fund in 2003-04 and \$3.1 million General Fund in 2004-05. Under this program, the state can provide benefits, for up to five months, to families transitioning from welfare to work. The Governor's proposal will result in a \$165.5 million loss of federal benefits.

- **Repeals Food Stamps Reforms.** The Governor's budget proposes to repeal recent food stamps program reforms for a General Fund savings of \$186,000 in 2003-04 and \$444,000 in 2004-05. The reforms seek to increase participation in the food stamps program among eligible families by simplifying the application process and modifying program eligibility criteria. This proposal will result in a \$37 million loss of federal food stamps benefits.
- **Elimination of the California Food Assistance Program.** The Governor proposes to eliminate the California Food Assistance program and instead provides block grant funding to counties to support safety net programs for immigrants for a General Fund savings of \$320,000. The proposed level of funding, to be included in the block grant, is based on current funding subject to a cap on new enrollees and reduced by five percent.

Issues for the Food Stamps Program

1. Elimination of Transitional Food Stamps Benefits. The Governor proposes to eliminate transitional food stamps benefits for savings of \$1.1 million General Fund in the current year and \$3.1 million General Fund in the budget year.

The federal government recently granted states an opportunity to provide five months of federally funded transitional food stamp benefits for people leaving cash assistance to help families make a successful transition from welfare to work. The Budget Act of 2003 provided funding to implement this federal option in California. Under current law, California will begin to provide transitional food stamp benefits to families leaving CalWORKs on January of 2004.

Elimination of the transitional food stamps program will result in a \$165.5 million loss in federal food stamps benefits for 66,000 low-income California households. According to a recent U.S. Department of Agriculture study, for every dollar of federal food stamps, \$1.84 in local economic activity is generated. Therefore, elimination of the transitional food stamps benefits will result in a \$305 million loss in local economic activity in California.

Preliminary analysis conducted by the LAO concluded that the revenue loss from tax proceeds in the second year of implementation would exceed programmatic savings. This proposal seems to run counter to the Governor's stated interest in increasing the amount of federal funds received by California.

2. Repeal of Recent Food Stamps Program Reforms. The Governor proposes to repeal legislation, which sought to increase participation in the food stamps program to realize General Fund savings of \$186,000 in the current year and \$444,000 in the budget year.

According to the US Department of Agriculture, only half of all eligible Californians access food stamps benefits. Working families, who comprise 71 percent of eligible households, are especially unlikely to participate in the program. Assembly Bill 231 (Chapter 743, Statutes of 2003) seeks to increase participation in the food stamps program among eligible families by simplifying the application process and modifying program eligibility criteria. Specifically, AB 231, establishes criteria for county exemptions from required face-to-face interviews and provides that car ownership and value shall not affect food stamps eligibility. The new law is expected to increase participation in the Food Stamps program by 15,000 households.

Repeal of recent food stamps program reforms will result in a \$37 million loss in federal food stamps benefits for 15,000 low-income California households. The Governor's proposal will result in a \$68 million loss in local economic activity in California.

3. California Food Assistance Program Changes. The Governor proposes to: (1) cap enrollment for the CFAP program on April 1, 2004; (2) eliminate the program by October 2004; and (3) provide Block grant funding for safety net services for legal immigrants for total General Fund savings of \$420,000. Counties will be required to screen for eligibility, and maintain a waiting list between April and October. During that period, beneficiaries will become eligible for services on a first-come, first-served basis. The budget does not provide any funding for increased administrative costs associated with administration of the proposed cap.

Effective October 2004, the Governor proposes to eliminate this program as part of his proposal to eliminate discretionary state programs that serve immigrants. However, a portion of CFAP funding is counted towards the TANF MOE, as such, the program is not totally discretionary.

The Governor's proposal raises a series of implementation issues. However, the most important issue for the Legislature is to decide whether to reduce or maintain California's commitment to providing assistance to low-income legal permanent residents and their children.

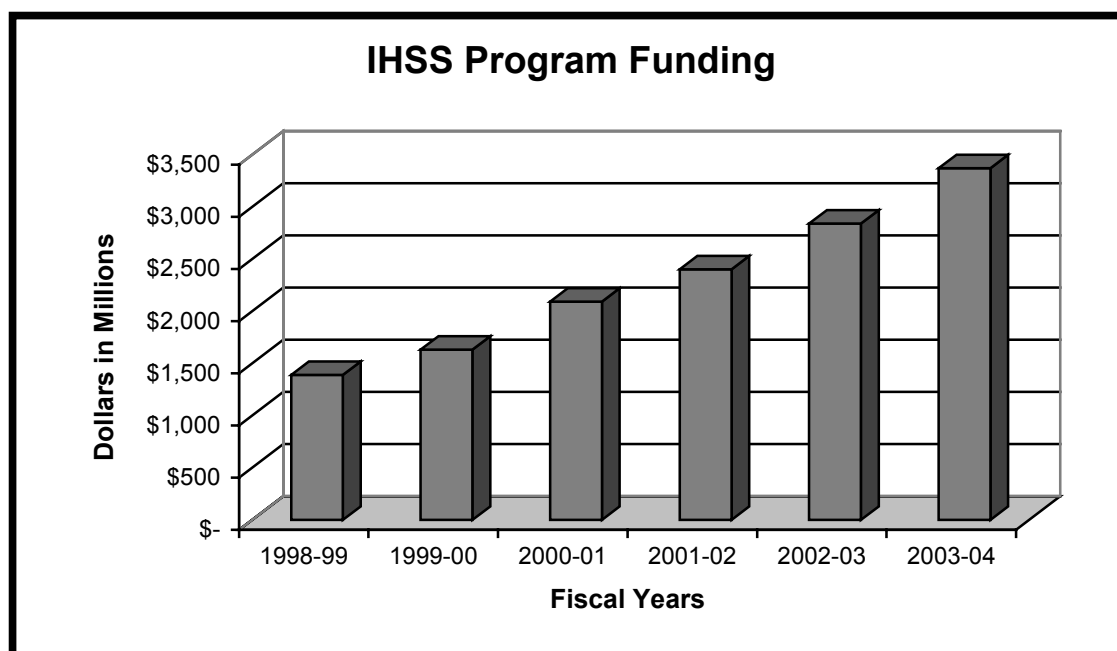
In-Home Supportive Services (IHSS)

Program Description. The In-Home Supportive Services (IHSS) program provides services to 359,000 aged, blind or disabled individuals that allow them to remain safely in their own homes as an alternative to out-of-home care. Fifty-one percent of IHSS consumers are disabled, 47 percent are aged, and two percent are blind. Persons with developmental disabilities constitute more than 12 percent of the IHSS caseload.

IHSS services include domestic services (such as meal preparation and laundry), nonmedical personal care services, paramedical services, assistance while traveling to medical appointments, teaching and demonstration directed at reducing the need for support, and other assistance. Services are provided through individual providers hired by the recipient, county contracts with service providers, or through welfare staff. Of the persons receiving IHSS, 79 percent are provided federally reimbursable services through the Personal Care Services program of the Medicaid program. The remaining recipients are served through the State's IHSS Residual Program.

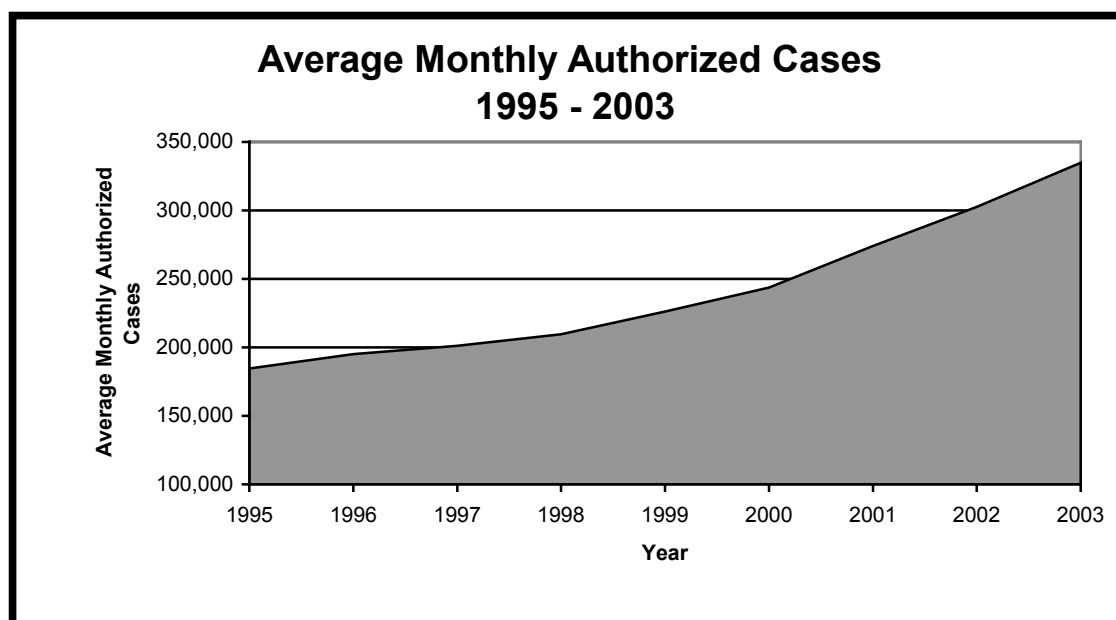
The IHSS caseload, hours of service by case and program costs have grown significantly faster than population growth since the mid-1990's. General Fund costs in this program have risen substantially. Regardless, costs per individual (less than \$9,000) are less than one-fifth the costs of nursing home placement.

Summary of Funding: The total cost of the IHSS program has more than doubled from \$1.39 billion in fiscal year 1998-99 to \$2.8 billion in 2002-03. Under current law, in 2003-2004 the total IHSS program budget will be \$3.4 billion, reflecting a 16 percent increase in one year.



The IHSS program's rate of growth has been fueled by multiple factors including the establishment of a state entitlement for personal care services, enrollment increases, a relative increase in the number of IHSS consumers who are severely disabled, greater utilization of service hours by case, and higher provider rates. Wage increases have reportedly contributed to enrollment growth and increases in the numbers of hours used; as higher wages have made it easier for beneficiaries to hire providers and fully utilize program services. In addition, demographic trends and a programmatic shift to support the elderly and persons with disabilities in community settings have increased and will continue to increase the number of eligibles and enrollees.

IHSS cases increased 64 percent from 1995 to 2003. This rapid growth is expected to continue in the future, given demographic and utilization trends.



The total number of IHSS service hours delivered in a given year has increased by 61 percent since 1997. Further, the average hours utilized in a month per IHSS consumer has risen by 16 percent to 81 hours per case.

Service hour utilization varies between consumers who are severely impaired (23 percent of cases) and not-severely impaired (77 percent). Severely impaired consumers, defined as consumers needing more than 20 hours of personal care services per week, utilize substantially more hours of service than non-severely impaired consumers do. Consumers who are severely impaired are a growing component of the IHSS caseload. Hence, the program is likely to experience continued growth in the number of service hours utilized on a per case basis.

	All Cases	Average Hours Per Case	
		Severely Impaired	Not Severely Impaired
1997	70	140.80	52.42
1998	73	142.28	54.69
1999	82	154.14	61.31
2000	78	144.26	58.17
2001	79	146.00	58.87
2002	81	146.37	60.24
2003	81	146.36	60.76

Increases in the cost of delivering services have also contributed to the growth in IHSS costs. Such increases have been fueled by increases in IHSS provider wages. The state participates in IHSS provider wages above the minimum wage since the 1999-2000 fiscal year. State funding for higher wages has contributed to a rise in the average wages earned by IHSS workers from minimum wage (\$6.75) to \$9.20 per hour.

Absent statutory changes, IHSS program costs are estimated to rise to \$3.6 billion (\$1.4 billion General Fund) in 2004-05. The Governor's budget proposes to reduce IHSS expenditures by 35 percent from their current law level for total reductions of \$875.6 million (\$492.4 million General Fund).

Summary of Governor's Reductions and Augmentations

- **Eliminate the IHSS Residual Program.** The Governor proposes to eliminate the IHSS Residual Program effective April 1, 2004 for a savings of \$116.1 million (\$88.8 million General Fund) in 2003-04 and \$485.4 million (\$365.8 million General Fund) in 2004-05. The Residual program serves 75,000 low-income aged blind or disabled consumers whose service provider is a parent or a spouse, who are in need of protective supervision, or who are persons with severe disabilities who receive payment prior to service delivery.
- **Eliminate State Participation in IHSS Provider Wages above Minimum Wage.** The Governor proposes to reduce IHSS provider wages and benefits from \$10.10 to the state minimum wage (\$6.75) for savings of \$301.6 million (\$98 million General Fund) in 2004-05.
- **Repeal IHSS Employer of Record Requirement.** The budget proposes to: (1) repeal the existing IHSS Employer of Record requirement; (2) eliminate state funding for Public Authorities; and (3) make the establishment of county IHSS Advisory Committees optional for savings of \$7.6 million (\$2.2 million General Fund) in 2004-05. Public authorities are the employer of record for IHSS providers for purposes of collective bargaining. Public authorities are also responsible for training providers, operating employee registries and helping recipients find providers.
- **Selective Elimination of Domestic Services.** The Governor proposes to eliminate coverage for domestic services when consumers reside with other family members in order to realize savings of \$80.9 million (\$26.3 million General Fund) in 2004-05. This proposal will reduce the authorized IHSS service hours of 90,000 persons. The proposal may conflict with Medicaid comparability requirements because it results in disparate treatment for similarly situated beneficiaries.
- **Reimbursement for Eligible IHSS Personal Care Services.** The Governor proposes to reimburse IHSS Personal Care Services consumers for eligible services rendered 3 months prior to application for a \$36.1 million (\$11.7 million General Fund) increase in IHSS costs. The proposal is consistent with Medi-Cal rules and Medicaid law, which provide for reimbursement of eligible expenses incurred by beneficiaries 90 days prior to establishing eligibility.
- **Extends Funding for the CMIPS Contract Procurement.** The budget proposes to extend funding for Case Management Information and Payrolling System contract procurement activities for one year to support re-evaluation of the current procurement strategy (\$1.7 million General Fund). The Administration proposes to migrate the CMIPS system to the California Medicaid Management Information System in order to benefit from enhanced federal financial participation in development costs.

Issues for the In-Home Supportive Services Program

The Governor's budget proposes to reduce IHSS expenditures by 35 percent, or \$875.6 million (\$492.4 million General Fund). The Governor's proposals include significant reductions in eligibility, curtailment of covered services, and rollbacks in state participation in IHSS provider wages. The proposals will impact most IHSS consumers and will reduce or eliminate the services received by 75,000 program beneficiaries. The Governor's reductions will substantially reduce state services available to assist low-income aged, blind and disabled persons to remain safely at home as an alternative to out-of-home care.

The Governor's proposed reductions to the IHSS program move in the opposite direction prescribed by the *Olmstead decision* which requires states to provide services to persons with disabilities, including elders, in the least restrictive setting possible. The proposed reductions will restrict access to community-based services while demographic changes and a programmatic shift to support elders and persons with disabilities in community settings continue to increase demand for services.

The Legislature may wish to consider how the Governor's proposals will impact California's compliance with the *Olmstead decision*, the effect of the Governor's proposals on persons with disabilities and elders, and the extent to which reduced access to IHSS services will lead to increases utilization of nursing homes. While it may be appropriate for the Legislature to review whether appropriate utilization controls and quality assurance mechanisms are in place, the Legislature may wish to consider whether the IHSS program should bear a disproportionate share of funding reductions. The Legislature may also wish to consider how the Governor's proposed reductions will affect the quality of life and ability to remain independent of low-income aged, blind and disabled persons.

1. Elimination of Residual Program. The Governor proposes to eliminate the IHSS Residual Program effective April 1, 2004 for a savings of \$88.8 million General Fund in the current year and \$365.8 million in the budget year. Savings result from the termination or reduction of services received by 75,000 IHSS consumers. Beneficiaries affected by the proposed elimination are consumers whose service provider is a parent or a spouse, consumers in need of protective supervision, and persons with severe disabilities who receive payment prior to service delivery.

IHSS Residual program consumers meet the same income, resources and disability eligibility criteria as IHSS PCSP beneficiaries. Their receipt of IHSS Residual program services, PCSP program services or both depends on whether the services they require and their arrangement for receiving care qualifies for federal financial reimbursement.

The IHSS Residual program funds the following IHSS services:

- Services delivered to minor children whose IHSS provider is a parent;
- Services delivered to consumers whose IHSS providers is a spouse;
- Protective supervision services provided to clients with cognitive impairments who need around the clock care;
- Cases where the recipient is severely disabled and receives payment in advance of service delivery;

- Services delivered to consumers who only require assistance with domestic chores;
- Restaurant meal allowances to consumers who receive those services.

In September 2001, the utilization of Residual Services was the following:

Types of Services	Number of Cases	Percentage	Expenditure	Percentage
Advanced Pay	745	1.1%	\$1,327,126	3.8%
Domestic Services Only	25,963	38.9%	7,175,011	20.4%
Relative Caregiver	16,056	24.1%	8,989,900	25.5%
Protective Supervision	11,056	16.6%	9,514,142	27.0%
Misc./Unknown	12,918	19.4%	8,241,302	23.4%
Total	66,738		\$35,247,481	

Seventy-five percent of IHSS Residual consumers receive protective supervision, domestic services only, or a restaurant meal allowance. These consumers will become ineligible for services or will lose a significant number of the hours of service. The remaining consumers will remain eligible for IHSS services. To continue receiving services they will need to alter their existing provider arrangement.

It is difficult to determine what will happen to consumers who lose IHSS Residual services or who experience a significant reduction in the number of hours of service they receive. Consumers have different needs and varying levels of available resources. Persons that only receive domestic services may be at a lower level of risk to be placed in out of home care than persons who receive advance pay or protective supervision services. However, we do not know with a reasonable degree of certainty how different groups of IHSS consumers will be affected by the Governor's proposal.

A recent review of consumers terminated from IHSS found that the most common reason consumers left the program was due to death (29%). Fifteen percent of IHSS recipients transitioned to institutional settings, 10 percent left at their own request, 22 percent had a change in eligibility, and the balance left for other reasons. More recent data shows an increase in the number of persons leaving IHSS to out-of-home care or to a skilled nursing facility, while the number of consumers who leave due to death remains stable. Although this information is valuable, its utility is limited because only a very modest percent of cases exit every year.

The Legislature may wish to consider how the proposed program elimination will affect the different categories of IHSS Residual consumers. The Legislature may also wish to examine the extent to which the proposed elimination will result in cost shifting to other state funded services, including Regional Center services, or contribute to increased utilization of out of home care and IHSS PCSP services. Finally, the Legislature may wish to request that the Administration pursue increased federal financial participation for IHSS Residual program services, specifically, funding for advance pay services.

2. Elimination of State Participation in Wages. The Governor proposes to reduce the level up that the state participates in for IHSS provider wages and benefits, from \$10.10 to the state minimum wage (\$6.75) for savings of \$301.6 million (\$98 million General Fund) in 2004-05. The budget assumes a phased-in implementation reducing state participation in wages as existing collective bargaining agreements and contracts with private contractors expire.

Currently, 11 counties offer wages and benefits at or above the maximum reimbursement rate of \$10.10 per hour for wages and benefits. Thirty-four counties offer wages and benefits above the minimum wage level of \$6.75 per hour. The effect of the Governor's proposal is that upon expiration of current collective bargaining contracts, counties will have to reduce IHSS provider wages or replace with county funds.

California chose to increase state participation in provider wages in order to improve the working conditions and earnings of IHSS providers, to increase the ability of IHSS consumers to hire providers, and to provide more stable and higher quality IHSS services. A reduction in IHSS wages may reduce available workers, increase provider turnover rates, decrease the ability of consumers to hire providers and negatively impact quality of care. Additionally, a decrease in wages will increase the chances that IHSS providers live in poverty and become eligible for Food Stamps, Medi-Cal and other public assistance programs.

3. Repeal IHSS Employer of Record Requirement. The budget proposes to repeal the existing IHSS Employer of Record requirement, to eliminate state funding for Public Authorities and to make the establishment of county IHSS Advisory Committees optional for savings of \$7.6 million (\$2.2 million General Fund) in 2004-05.

Public authorities are the employer of record of IHSS providers for purposes of collective bargaining over wages, hours and other terms of employment. Public authorities are responsible for training providers, operating employee registries and helping recipients find providers. The proposed elimination of public authorities undermines the ability of employees to organize for purposes of collective bargaining. It may also reduce the availability of provider registries, training for providers and may be detrimental to the quality of care received by IHSS consumers.

4. Selective Elimination of Domestic Services. The Governor proposes to eliminate coverage for domestic services when consumers reside with other family members to realize savings of \$80.9 million (\$26.3 million General Fund) in 2004-05. The services to be eliminated include house cleaning, meal preparation, laundry and errands. Consumers will continue to receive personal care services. This proposal will reduce the authorized IHSS service hours of 90,000 persons. Some consumers living with family members will be exempt from the proposed reduction in services in unspecified circumstances.

Currently, the state provides coverage for domestic services needed by IHSS consumers in shared living arrangements on a pro-rated basis. The Governor proposes to eliminate coverage for domestic services provided in common areas to persons who reside with family members. Services will be provided to similarly situated beneficiaries who do not living with family members.

There are multiple programmatic issues to be resolved prior to implementation of this proposal including defining family member for purpose of determining coverage for domestic services,

establishing clear exemption criteria, and creating an exemption process. Beyond its implementation challenges, the Governor's proposal may conflict with Medicaid comparability requirements, as it would result in disparate treatment for similarly situated beneficiaries. The Legislature may wish to consider the impact of the proposed service reductions on IHSS consumers and examine whether the Governor's proposal violates federal law.

Children and Family Services Programs

Summary of Enrollment and Funding. The Department of Social Services administers a series of programs designed to protect children from abuse, neglect and exploitation, to deliver necessary services to children in out-of-home care, and to support the adoption of children with special needs. These programs serve an average of 334,800 youth each month. The programs are overseen by the Department of Social Services and operated by county welfare departments. The Governor's budget provides \$4.8 billion in combined federal, state and county funds to support children and family services programs.

The Foster Care program provides support payments for children in out-of-home care, including foster homes, foster family agencies, residential treatment for seriously emotionally disturbed children and group homes. The caseload for foster care is estimated to increase by 2.6 percent to 80,000. The Adoption Assistance program provides subsidies to promote the placement of hard-to-place adoptive children. The caseload is expected to be 67,600, an increase of 10.5 percent over current year. Finally, the Kin-GAP program provides support to children in long-term stable placements with relatives. The projected caseload is 14,500 children, reflecting an increase of 8.2 percent. The rates of growth in the AAP and Kin-GAP programs are projected to slow in the budget year. Decreased rates of growth in AAP and Kin-GAP contribute to caseload growth in the foster care program.

Child Welfare Services (CWS) encompasses a variety of services designed to protect children from abuse, neglect and exploitation. CWS programs include Emergency Response, Family Maintenance, Family Reunification and Permanent Placement. These programs will serve an estimated 174,800 children per month in the budget year. Adoptions Services provides adoption services through state and county agencies. In the 20002-03, 9,000 children were adopted through Adoption Services.

Summary of Governor's Reductions and Augmentations by Program

Foster Care

- **Proposes to Develop and Implement Foster Care Reforms.** The Governor's budget assumes \$20 million General Fund in savings resulting from development and implementation of programmatic reforms that shorten the period of time children spend in foster care. Reforms may include use of performance-based contracts, restructuring of foster care rates and receipt of a federal waiver that permits use of federal foster care funds for child welfare purposes, including intensive services to keep children with their birth parents.
- **Implements *Rosales v. Thompson*.** The budget increases foster care funding by \$36.7 million (\$7.5 million General Fund) to implement the *Rosales v. Thompson* court decision

which expanded eligibility for federal foster care funding to thousands of low-income relatives caring for foster children.

- **Transfers TANF Funds to Foster Care.** The Governor proposes to transfer \$56.6 million in Temporary Aid for Needy Families funds from CalWORKs to the Foster Care program to offset General Fund support for the Foster Care program. California's continued use of TANF funds to support non-CalWORKs programs is seriously limiting the state's ability to continue to afford the CalWORKs program without additional General Fund spending.
- **Eliminates the Supportive Transitional Emancipation Program (STEP).** The Governor proposes to eliminate the STEP program for General Fund savings of \$38,000 in the current year and \$338,000 in the budget year. Established in January 2002, the STEP provides financial assistance to emancipating foster youth up to age 21 who are participating in an educational or training program. The program operates as a county option. Given fiscal constraints at the local level, no county to-date has opted to implement STEP.

Adoption Assistance Payment (AAP) and Kin-GAP

- **Increases AAP Program Funding.** The Governor's budget provides a \$57.8 million (\$24.7 million General Fund) augmentation to the AAP program to fully fund caseload growth and increases in the cost per case. AAP provides subsidies to promote the placement of hard-to-place adoptive children. Program subsidies are not means tested. AAP funding has increased by 154 percent since 1998.
- **Increases Kin-GAP Program Funding.** The Governor's budget increases funding for Kin-GAP by \$7 million to fully fund caseload growth. Kin-GAP funding is also adjusted due to an increase in the state and county share of cost resulting from the Governor's proposed reduction of CalWORKs grants. Kin-GAP provides financial support to children in long-term stable placements with relatives.

Child Welfare Services

- **Provides \$17.6 Million to Fund the CWS Redesign Activities.** The Governor's budget provides new funding to support various CWS Redesign activities including implementation of differential response, state and county level training, and development of a curriculum for the statewide approach to Safety and Risk Assessment. Sources of funding include TANF, Promoting Safe and Stable Families funds, State Children's Trust Fund and General Fund.
- **Increases by \$10.6 Million Program Improvement Plan Funding.** The Governor's budget provides increased support for state and county activities associated with the state's Program Improvement plan. The funding supports data clean-up activities, recruitment of minority foster homes, and funding for training of social workers.
- **Supports Implementation of Child Welfare Outcomes and Accountability System.** The Governor's budget provides \$9.5 million to fund county self-assessment data gathering and

evaluation efforts, 6 peer quality case reviews, and county coordinators for completion of county self-assessments and county System Improvement plans.

- **Child Welfare Services Case Management System Reduction.** The budget reduces funding for the Child Welfare Services Case Management System Project by \$7.7 million. These savings reflect the transfer of training activities from the Department of Social Services to the Data Center Project Office and elimination of one-time costs.
- **Maternity Care Program.** The Governor's budget proposes to eliminate the Maternity Care Program for budget year savings of \$200,000. The Maternity Care program provides funding for residential care, counseling, and maternity-related services for pregnant, unwed mothers that are under the age of 18 at the time of admission. Due to funding cuts in the 2003 Budget, the program only provides funding to Los Angeles County.
- **Repeal of recent legislation.** The Governor's budget proposes to repeal recent legislation relative to children services programs for savings of \$6.8 million (\$4 million General Fund). The proposed repeals include: AB 408 (Steinberg) which facilitates relationships for emancipating foster youth to ease transition; AB 1151 (Dymally) which defines social worker liability; and AB 529 (Mullin) which enables family day care home providers to serve more children in a narrow circumstance. The Governor also proposes to repeal SB 577 (Kuehl) which updated state law to reflect federal law changes to the scope and authority of California's federally mandated Protection and Advocacy Agency.

Issues for California Children and Family Services Programs

1. California Child and Family Services Review and Program Reforms. Last year, California had its first federal children and family services review which sought to determine whether California adequately protects children from abuse and neglect. The federal review concluded that California is not operating in substantial conformity in all evaluated outcome areas and five of the seven evaluated factors. California has negotiated a Program Improvement Plan (PIP) with the federal government. The plan outlines steps California will take to improve its outcomes, includes timeframes for achieving improvement, and commits to dozens of specific program performance improvements.

California has also been engaged in the development and implementation of a new system, based on federal performance reviews, to measure specific county outcomes. Assembly Bill 636 (Steinberg) requires California to establish an outcome-based system to evaluate county operations of child welfare services. The new California Child Welfare Outcomes and Accountability System includes web-based reporting of county outcomes, and requires counties to conduct self-assessments and develop system improvement plans.

In addition, California recently concluded its three-year Child Welfare Stakeholders (CWS) Group process, which examined California's child welfare services programs and recommended changes. The group released its CWS Redesign report in September 2003. The Redesign outlines a broad long-term plan to improve the child welfare services system. The plan includes the development of partnerships between CWS agencies and community based organizations, as well as efforts to improve access to preventative services and supportive services for families.

The Governor's budget provides \$37.8 million in new funding to support implementation of AB 636 - the California Child Welfare Outcomes and Accountability System, the Program Improvement Plan, and to plan for implementation of the Child Welfare Services Redesign. Specifically, new funding will support completion of county self-assessments, peer quality case reviews, partial implementation of differential response, and recruitment of minority foster homes. In addition, the Governor's budget assumes \$20 million in General Fund savings resulting from development and implementation of programmatic reforms that shorten the period of time children spend in foster care.

The Legislature may wish to consider the interactions between the Governor's proposed Children and Family Services Program reforms and any associated changes. Do the reforms complement each other? How will proposed reforms improve outcomes for children and families? Are the Governor's proposed funding augmentations the best use of limited resources?

While the Governor's proposals lack critical details, they outline the Administration's plan to improve the child welfare services system. The Legislature may wish to consider whether the Governor's proposals will improve outcomes for children and families and/or establish its own Legislative priorities for reform. The Legislature may also wish to consider alternative strategies to improve program outcomes including providing supportive services to foster parents, improving access to substance abuse services for parents of children in the CWS system, and providing additional support for county implementation of AB 636.

Community Care Licensing

The Community Care Licensing Division (CCLD) of the Department of Social Services is responsible for licensing over 85,000 community care facilities across the state. These facilities have the capacity to serve over 1.4 million clients requiring different types of care and supervision. Licensees include childcare facilities, certified family homes, foster family agencies, residential care facilities for the elderly, residential care facilities for the chronically ill, adoption agencies, transitional housing and adult day care. Currently, the CCLD is required to visit licensees on an annual or triennial basis to ensure compliance with health and safety requirements.

Summary of Governor's Proposed Reductions and Augmentations

- **Increases Fee Revenue to Replace General Fund Support for the CCLD.** The budget and implementing legislation propose to increase licensing fees to provide non-General Fund support of the CCLD.
- **Augmentation for Processing of Background Checks.** The budget provides a \$4.6 million increase to complete background checks and investigate arrests of employees and new applicants for employment at facilities licensed by DSS.
- **Eliminate Existing Fingerprinting Fee Exemptions.** California requires persons working or volunteering at community care licensing facilities and family day care facilities to be fingerprinted. Generally, licensees are required to pay for the fingerprinting process. Family day care providers, persons operating or managing a certified family home or a foster family home, and volunteers at child care facilities have been historically exempted, or partially

exempted from the required fees. The Governor's budget proposes to eliminate these fingerprinting fee exemptions.

Issues

1. Increase Community Care Licensing fees to cover program costs. The Governor proposes to increase fees paid by CCLD licensees over a three-year period to fully fund the community care licensing costs with fee revenue. The total General Fund cost of the CCLD program, which the Governor proposes to cover with fee revenue is \$35 million. Licensees subject to the fees include childcare providers, adult care facilities, children residential programs, and senior care providers.

California began assessing fees from a wide range of facilities licensed by the Department of Social Services in 1992. The fees were established to cover a modest portion of the costs for the state's licensing program. They are assessed on a per facility basis, with the exception of fees levied on child care centers operating more than one facility.

Since 1992, DSS fees had remained unchanged. The Budget Act of 2003 and its implementing legislation substantially increased the CCLD fees, established a new fee on foster family agencies and eliminated the cap on certain child care center fees. Fees on child care providers generally doubled, while fees on residential care providers increased by at least 25 percent. CCLD fees will now generate \$14 million in revenue and will cover 40 percent of the Community Care Licensing Division's budget.

The state and counties are the primary, and in some cases the sole, purchasers of services provided by many CCLD licensees. Substantial CCLD fee increases are tantamount to a rate reduction for some providers. Such increases may result in a loss of available providers and additional pressure for adjustment of the state's reimbursement rates. The Legislature may wish to consider the effect of proposed fee increase on availability of service providers.